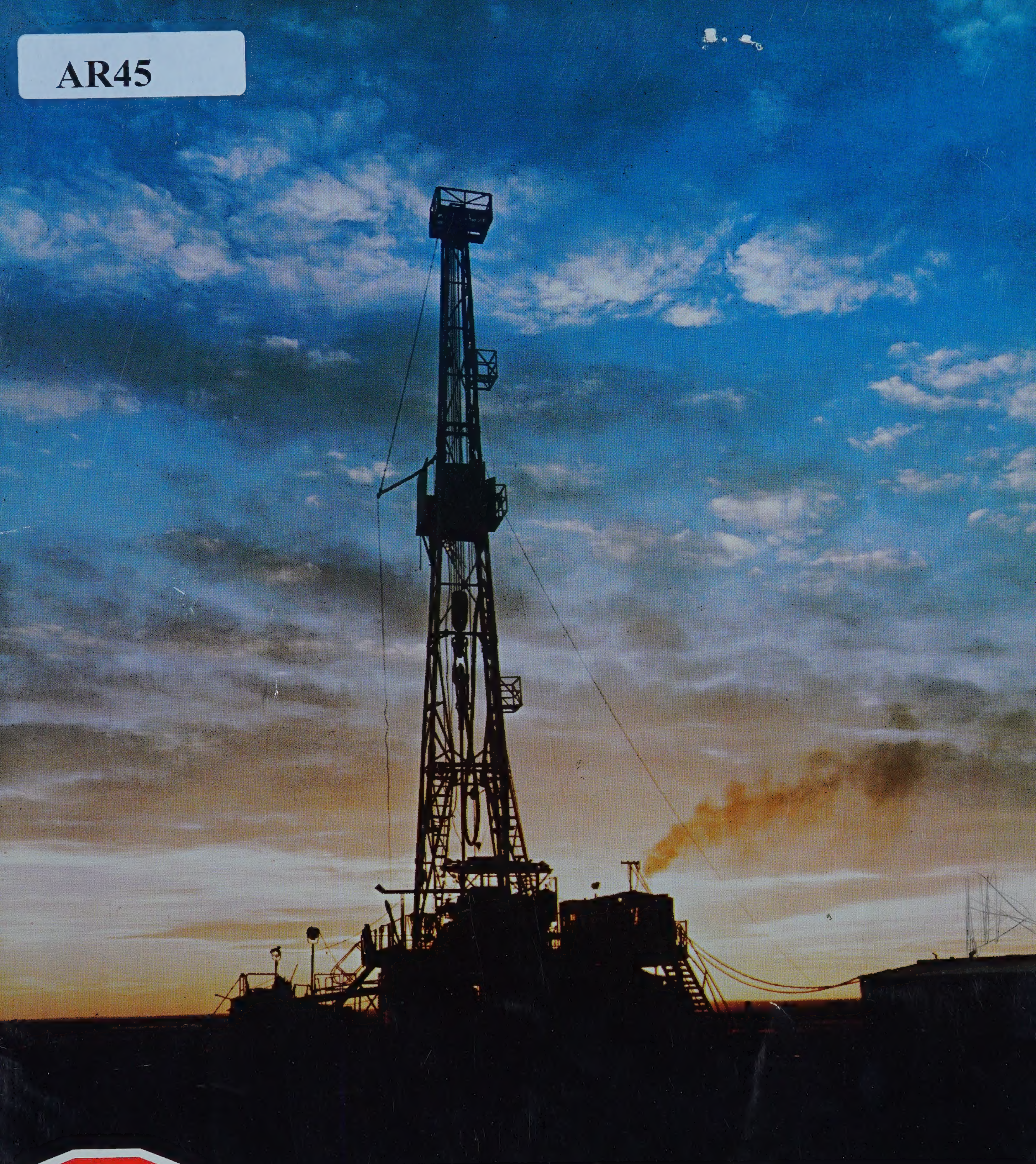

Ashland Oil Canada Limited / Annual Report 1971

ASHLAND OIL CANADA LIMITED / ANNUAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 1971

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The Company intends to publish supplementary financial and operating information. While this publication will be intended primarily for the use of security analysts, any shareholder wishing a copy should direct his request to the Company's secretary.

FINANCIAL AND OPERATING HIGHLIGHTS

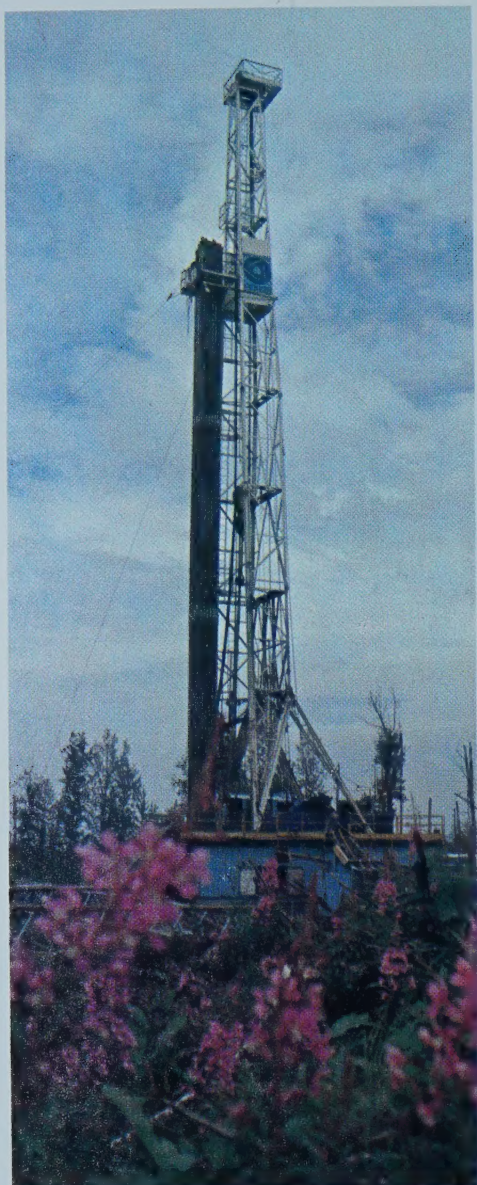
FINANCIAL

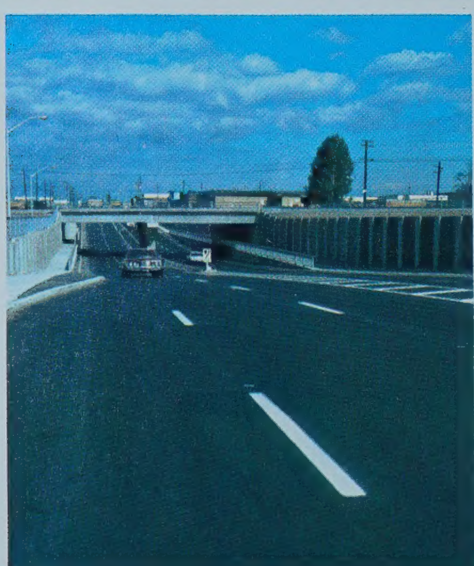
	Period of 12 months ended September 30 1971	1970 (Restated)	Per Cent Change
	$000	$000	
Sales & Operating Revenues:			
Oil & Gas	**$15,882**	$14,584	
Paving & Construction	**36,297**	32,568	
Petroleum Products	**2,728**	2,507	
Chemicals	**7,955**	7,009	
Other	**1,148**	893	
Total	**$64,010**	$57,561	+11
Cash Flow	**$16,124**	$13,119	+23
Per common share	**$1.24**	$1.02	
Net Earnings (before extraordinary item)	**$ 8,099**	$ 5,817	+39
Per common share	**62¢**	45¢	
Net Earnings (after extraordinary item)	**$ 8,573**	$ 5,142	+67
Per common share	**66¢**	40¢	
At Year End —			
Working Capital	**$ 7,020**	$ 7,424	–5
Long-Term Debt	**$ 1,531**	$ 2,924	–48

OPERATING

	1971	1970	Per Cent Change
Net Production			
Crude Oil & NGL — Bbls	**5,740,791**	5,424,223	+6
Daily Average	**15,728**	14,861	
Natural Gas — Mcf	**8,368,741**	7,940,110	+5
Daily Average	**22,928**	21,759	
At Year End —			
Net Proven Reserves			
Crude Oil & NGL — Bbls	**71,766,400**	65,888,100	+9
Natural Gas — Mcf	**145,253,000**	133,600,000	+9

The Annual General Meeting of Shareholders will be held at Calgary, Alberta on January 19, 1972, at 10:00 a.m.





TO THE SHAREHOLDERS:

Ashland Canada achieved record levels of performance during the fiscal year ended September 30, 1971, the first full year of operations after the reorganization completed in September of 1970. The Company showed a significant increase in gross revenue, cash flow and net earnings over the preceding year.

Gross Revenue increased by 11 per cent to $64 million, with the increase primarily due to higher oil and gas production levels during the year and record construction operations in the fourth quarter.

Cash Flow increased by 23 per cent to a record $16 million, or $1.24 per share, compared with $13 million and $1.02 per share for the comparable period of the previous year.

Net Earnings (before extraordinary item) increased by 39 per cent to $8.1 million, or 62¢ per share compared with 45¢ for the previous year. Net earnings after extraordinary item were 66¢ per common share.

Oil and gas production levels increased over the year. Crude oil and liquid production averaged 17,300 barrels per day during September 1971, compared with 15,400 barrels per day in September 1970. The Company not only replaced reserves produced during the year but increased its proven and probable reserves significantly.

An aggressive exploration and development drilling program was carried out in Western Canada during the year. The Company participated in the drilling of 118 wells, 59 of which were completed for oil or gas production. Of particular significance was the discovery by Ashland Canada of a new oil pool in the Grand Forks area in Southern Alberta. The new pool now contains 19 producing oilwells, with further development drilling still under way.

The Company is continuing to expand its exploratory acreage position in Canada through direct purchase and farm-in. Interests were acquired during the year in lands in the Arctic Islands, Northwest Territories, and the provinces. At year end the Company held interests in 14 million gross and 3 million net acres in Canada. In addition, Ashland Canada retains shareholding interests in Panarctic Oils Ltd. and Magnorth Petroleum Ltd.

The outlook for increased cash flow and earnings in fiscal 1972 is good. We expect a continued increase in market demand for Canadian crude oil which, combined with the Company's increased productive capacity, will have a beneficial effect on production levels and revenues from oil and gas sales. Construction work presently under contract is at a higher level than in previous years. Petroleum product and chemical markets served by the Company are increasingly competitive, but appear firm.

Capital expenditures during fiscal 1971 totalled $14.9 million, of which $8.7 million was related to the acquisition, exploration and development of oil and gas properties. We have projected capital expenditures for the forthcoming year at $16.5 million, of which 75 per cent, or $12.5 million, has been allocated to oil and gas operations.

Capital expenditures of this magnitude can be made within the Company's projected cash flow and present working capital position. Other investment opportunities are under continual evaluation and are considered separately on their individual merits.

Warren Bitulithic and Columbia Bitulithic, the Company's asphalt paving and construction operations, contributed a record $3.3 million in before-tax earnings. Investments were made in granular material sources which should serve to strengthen these operations in the face of increasing competition, which is already intense. The Company purchased the City Construction group of companies in Vancouver, which operates in areas of British Columbia where the Company was not represented.

Valvoline Oil Canada, Ashland Canada's petroleum products marketing division, increased its before-tax profits from $170,000 in 1970 to $316,000 in 1971. Investments are being made in additional plant and marketing facilities throughout the country.

Chemical operations showed improvement in sales and earnings in the face of increased competition and adverse market conditions. Before-tax income increased by 40 per cent to $460,000 for the year. We expect these operations will continue to increase sales and earnings during 1972.

Ashland Canada continued with its planned program of syndicated exploration for hard minerals, and in June 1971 acquired 17 per cent of the outstanding common shares of Rayrock Mines Limited. Rayrock and associated companies, Discovery Mines Limited and Avoca Mines Canada Limited, are involved in metals exploration and production. Ashland Canada is represented on the Board of Directors of each of these companies.

Mr. Samuel C. Nickle, Sr., Chairman of our Board of Directors, passed away June 28 at the age of eighty years. A pioneer of the Canadian oil and gas industry, Mr. Nickle was founder of Canadian Gridoil Limited, a predecessor company to Ashland Canada. Mr. Nickle's invaluable contributions to the industry, his community and this Company, will not be forgotten.

The Directors appreciate the contribution and support of the employees of the Company over the year and recognize the important role they will play in the future growth of Ashland Canada.

December 8, 1971

Arloe W. Mayne
Chairman of the Board

H. Earl Joudrie
President and Chief Executive Officer

ASHLAND INTERESTS

Leases, Permits and Reservations

Fee Mineral Ownership

Scale in Miles

0 100 200 300

OIL AND GAS OPERATIONS

The Oil and Gas Division of Ashland Canada was active during 1971 and results are encouraging. Of significance:

Revenue from oil and gas sales totalled $15.9 million for the year, an increase of $1.3 million over the comparable period for 1970.

Oil and liquid production averaged 15,700 barrels per day during the year, up from an average of 14,900 barrels per day in 1970. September 1971 production exceeded 17,300 barrels per day.

The Company replaced oil and gas reserves produced during the year and added 6 million barrels of oil and 12 billion cubic feet of gas to its proven reserves.

The Company discovered, and is now developing, a new oil pool in the Grand Forks area of Southern Alberta. Indications are that this field will be one of the largest in the southern part of the province.

The industry received its first general increase in the price of crude oil in eight years. The 25¢ per barrel increase became effective during December 1970 in most producing areas.

Capital expenditures of $12.5 million are projected for exploration and production programs during 1972 and compare to $8.7 million invested in oil and gas operations during 1971.

Drilling Activity — Twelve Months Ended September 30, 1971

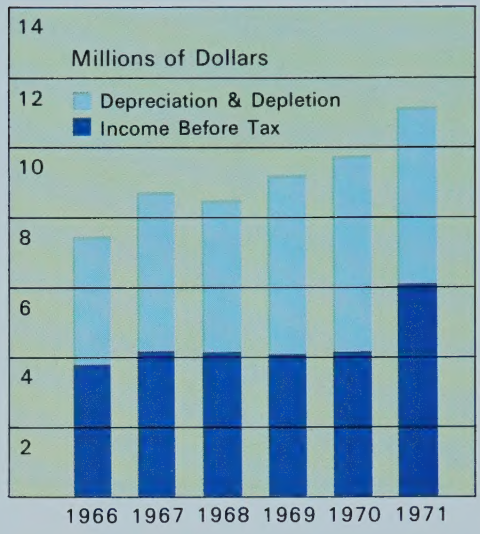
	Oil	Gas	Service	Dry	Total	Success Ratio
Exploratory	3	14	0	28	45	38%
Development	34	7	1	31	73	58%
Gross Wells	37	21	1	59	118	50%
Net Wells	22	5	0	28	55	50%

Ashland Canada acted as Operator in the drilling of 76 wells, or 64% of the program.

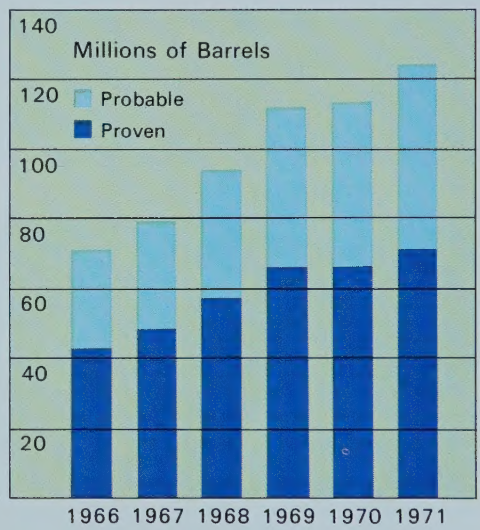
Oil and Gas Reserves (Net of Royalties)

	September 30, 1971	September 30, 1970
Crude Oil & Natural Gas Liquids—Barrels		
Proven Developed	71,766,400	65,888,100
Probable Additional	52,386,900	47,008,700
Total	**124,153,300**	**112,896,800**
Natural Gas—Millions of Cubic Feet		
Proven Developed	145,253	133,600
Probable Additional	18,956	22,871
Total	**164,209**	**156,471**
Total Barrels— Converted on a Price Equivalent Basis		
Proven Developed	79,513,200	73,013,800
Probable Additional	53,397,900	48,212,400
Total	**132,911,100**	**121,226,200**

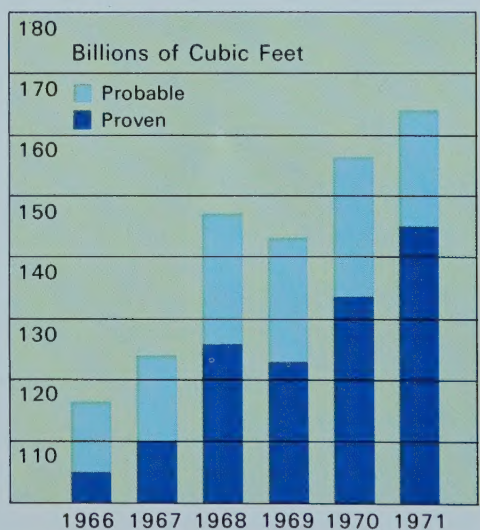
Oil & Gas Division — Operating Income

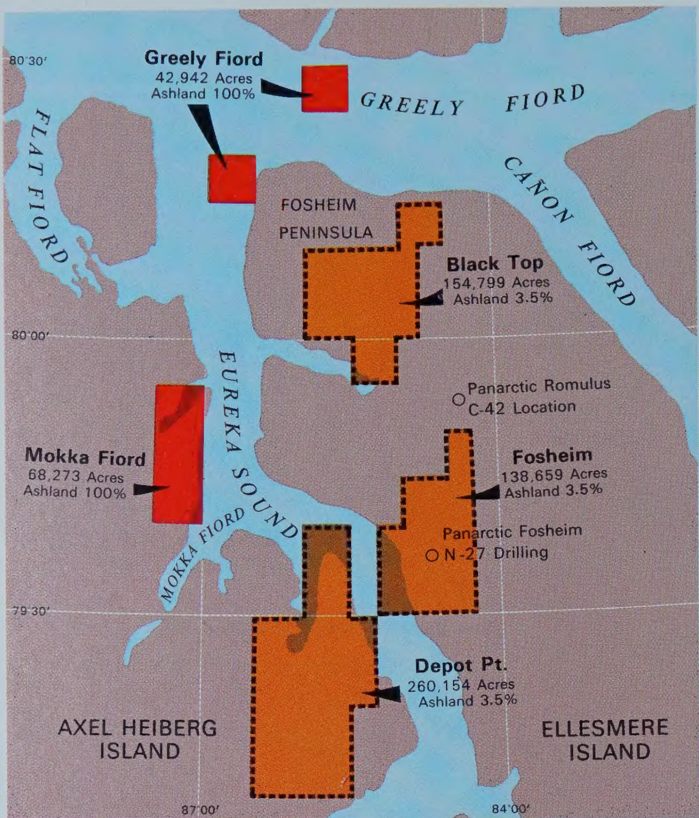


Remaining Oil Reserves



Remaining Gas Reserves





ARCTIC ISLANDS

- Ashland Lands
- Ashland Lands Committed to Panarctic
- Panarctic Holdings
- Magnorth Holdings
- Location
- Gas Well
- Dry or Abandoned

EXPLORATION

Ashland Canada continued its aggressive program of acreage acquisition and exploratory drilling during 1971. The Company participated in drilling 45 exploratory wells, resulting in 3 oil and 14 gas completions.

The major part of the Company's exploration activity was undertaken in the provinces of Alberta and British Columbia. It is felt these provinces still offer excellent potential for the discovery of both significant and profitable oil and gas reserves. An accelerated program of exploration will be undertaken in these areas during 1972.

The highly potential ''frontier'' regions of Canada — the Arctic Islands, eastern offshore and Mackenzie Delta — continue to be the focus of our longer term exploration planning. A concentrated and continual effort will be made to increase the Company's present acreage holdings in these areas and to participate directly in exploration activity.

ARCTIC ISLANDS

Ashland Canada's holdings in the Arctic Islands, in addition to direct working interests in 7.7 million acres, include participating interests in Panarctic Oils Ltd. and Magnorth Petroleum Ltd.

Panarctic, in which Ashland Canada owns a .95 per cent interest, holds a direct interest in 55 million acres. In addition to the funds subscribed by participants, which now total $76 million, Panarctic has secured $75 million in exploration funds from companies interested in the future marketing of Arctic natural gas reserves.

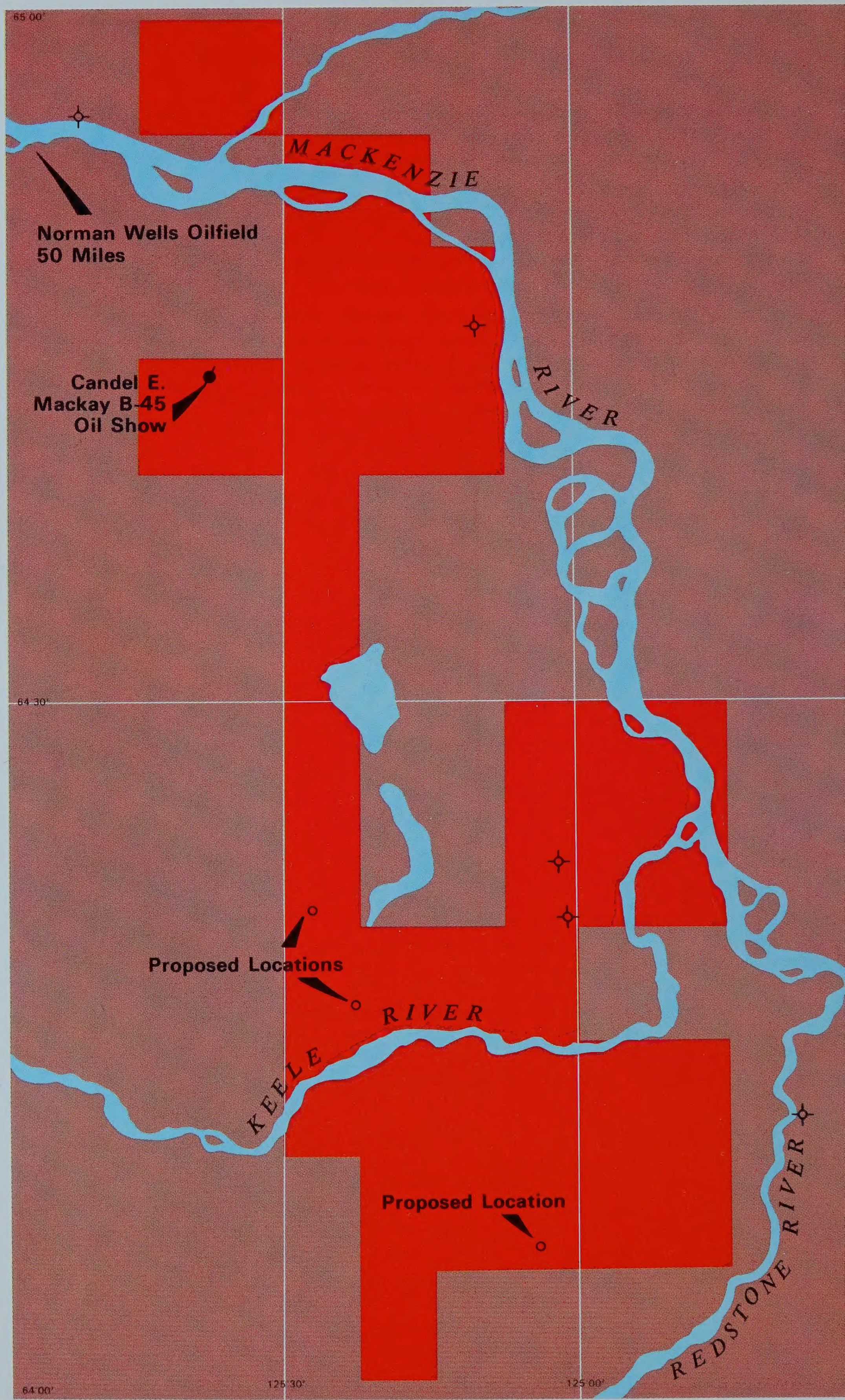
During 1971 the Company participated in the formation of Magnorth Petroleum Ltd. and, as a result, now holds a 3.4 per cent interest in that company. Magnorth holds interests in 14.4 million acres of permits, primarily offshore in the Arctic Islands, and has participated in 4,000 miles of marine seismic in the inter-island area. A major gas purchasing company has agreed to expend $9 million on exploration of the Magnorth holdings to earn a 25 per cent working interest.

Mokka Fiord

The Company has acquired a 100 per cent working interest in a 68,200-acre permit block on Axel Heiberg Island in the Eastern Arctic. The lands contain the Mokka Fiord anticline, a geological feature approximately 15 miles in length and 4 miles in width. Geological and geophysical work on these lands is now being evaluated. The Mokka Fiord block is located in an area of the Eastern Arctic Islands in which additional drilling is anticipated in the near future. Panarctic Fosheim N-27, now drilling, is located approximately 30 miles southeast of this block.

Eureka Sound

During the year Ashland Canada was able to confirm a 3.5 per cent working interest in 550,000 acres of permits containing the Fosheim, Black Top and Depot Point anticlinal features on Ellesmere Island and Axel Heiberg Island. The Panarctic Fosheim N-27 well, a 14,000-foot exploratory test of an anticlinal feature, when completed, will reduce Ashland Canada's interest in the Fosheim block to 1.75 per cent. Panarctic holds options to drill a 14,000-foot Pennsylvanian test on each of the Black Top and Depot Point blocks which, if exercised, would reduce the Company's interest in these blocks to 1.75 per cent. The Fosheim test, and the above option wells if drilled, will be free of cost to Ashland Canada.



FORT NORMAN

Ashland Lands

Scale in Miles

0 5 10

FORT NORMAN-KEELE, NORTHWEST TERRITORIES

Ashland Canada is participating in a multiple-well drilling program in the Fort Norman area of the Mackenzie Valley. During the 1970-71 winter season the Company participated in drilling three exploratory tests in the area. One of these, Candel DecKMG et al East MacKay B-45, drilled to a depth of 5,286 feet in the Ronning formation, recovered 1,830 feet of 20 degree gravity oil on drillstem test from the top of the Siluro-Ordovician Ronning formation.

During the 1971-72 winter season the Company will participate in at least three further exploratory tests which have been selected on the basis of geophysical work. At the completion of the total drilling program Ashland Canada will hold working interests varying from 4.2 per cent to 8.3 per cent in 525,000 acres in the area.

The properties being evaluated by this exploration project are located approximately 50 miles southeast of the Norman Wells Devonian oilfield, discovered in 1920, which is estimated to contain between 50 million and 100 million barrels of recoverable oil. Although the Candel B-45 well is not commercial, the recovery of oil from a formation different from that of the Norman Wells field is encouraging.

SOUTHERN ALBERTA

Ashland Canada has planned a 15-well exploratory drilling program in the Hays-Grand Forks area of Southern Alberta. The Company now holds major interests in the Hays Field and the Grand Forks Field and believes the area has excellent potential for the discovery and development of additional reserves.

At the commencement of the fiscal year Ashland Canada held interests in 114,000 acres of petroleum and natural gas rights in the Hays-Grand Forks area. Encouraged by the discovery of the Grand Forks Lower Mannville "D" Pool and the rapid development of sizeable reserves and excellent productivity, the Company has acquired interests in an additional 78,000 acres through lease purchase or farmout and option from others.

Oil and Gas Acreage Holdings as at September 30, 1971

*Royalty interests are not included.

	Gross Acres	Net Acres*
Petroleum and Natural Gas Rights		
Alberta	1,703,450	796,277
British Columbia	144,077	58,488
Saskatchewan	663,799	401,237
Manitoba	9,384	7,818
Ontario	1,987	530
Northwest Territories	735,054	94,758
Arctic Islands	7,682,069	632,312
East Coast Offshore	1,796,609	302,549
Montana	91,545	45,775
Total	**12,827,974**	**2,339,744**
Fee Mineral Title Ownership		
Saskatchewan	1,003,289	499,267
Manitoba	753,000	376,500
North Dakota	144,734	26,531
Total	**1,901,023**	**902,298**
Total Holdings	**14,728,997**	**3,242,042**

SADDLE LAKE – ST. BRIDE

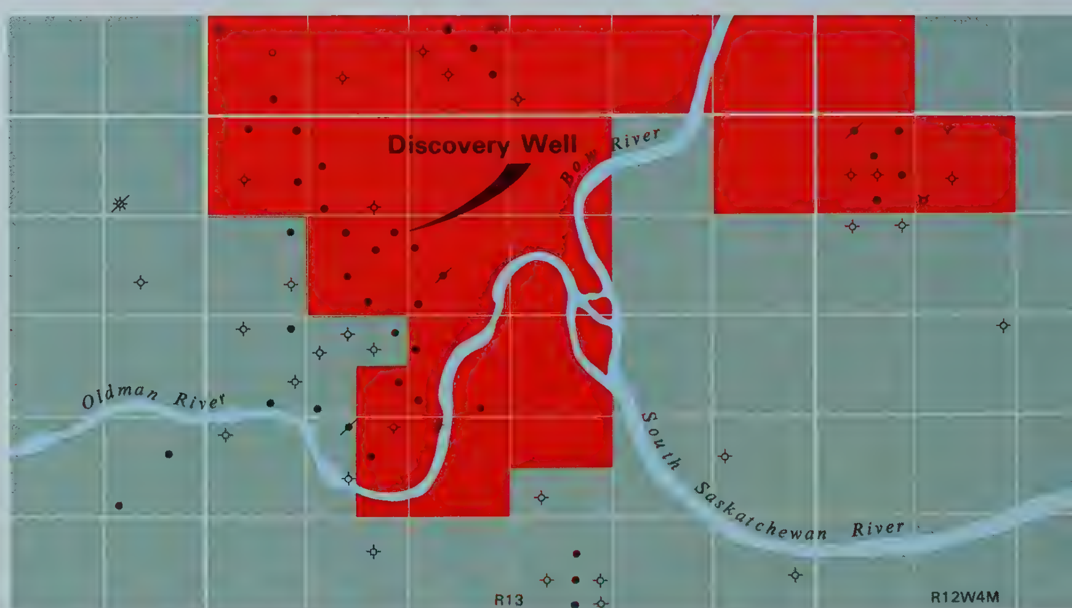
Ashland Lands
Location
Oil Well
Gas Well
Dry or Abandoned

Scale in Miles
0 5 10 15

GRAND FORKS

Ashland Lands
Location
Oil Well
Gas Well
Dry or Abandoned
Suspended Oil Well
Suspended Gas Well

Scale in Miles
0 1 2



PRODUCTION

The Company continued its concentrated program to maximize productive capacity and increase recoverable reserves through the initiation of unitization and pressure maintenance projects.

Development drilling was undertaken both to expand the limits of presently producing fields and to follow up new pool discoveries. During the year 73 development wells were drilled, resulting in 34 oil and 7 gas wells.

GRAND FORKS FIELD

The Lower Mannville ''D'' pool, discovered by Ashland Canada, has been rapidly developed during the past year and now contains a total of 19 producing wells. The development program, designed to follow up and further evaluate the pool discovery, has proven significant reserves. Production is from the Basal Mannville Sand at a depth of approximately 3,000 feet. The wells produce 26 degree gravity oil at average productive capacities of 200 barrels per day from sand pay varying in thickness from 6 feet to 92 feet. Ashland Canada is continuing to extend the boundaries of the new pool, and presently owns approximately 90 per cent of the developed acreage.

Development wells at this relatively shallow depth cost an average of $50,000 with the majority of the wells being completed as flowing wells. Production has an immediate market through Ashland Canada's wholly-owned pipeline system, consisting of 23 miles of line serving seven pools and connecting with the Bow River Pipeline system.

Unitization and secondary recovery programs are already being considered for the field area. Reservoir characteristics indicate that immediate initiation of enhanced recovery procedures would be most beneficial.

SADDLE LAKE—ST. BRIDE

The Company holds interests ranging from 16⅔ per cent to 100 per cent in 20 gas wells in the Plain Lake-Saddle Lake-Craigend area of Eastern Central Alberta. During the year the Company continued to expand its acreage position and now holds varying interests in 230,000 acres.

The area is known to be gas bearing in a number of zones and 6 of the 20 wells cased to date are capable of being completed as multi-zone producers. Productive depths range from 1,500 feet to 2,300 feet. A number of the wells exhibited high capacity deliverability on test with 2 wells having exhibited absolute open flow rates in excess of 20 million cubic feet per day. A 10-well drilling program is proposed to develop additional gas reserves for contract dedication and delivery to market.

Interest in Wells—Gross and Net—September 30, 1971

	Oil	Gas	Shut-In Gas	Service	Total
Alberta	2,692	180	36	717	3,625
Saskatchewan	1,932	18	8	1,795	3,753
British Columbia	217	10	6	78	311
Ontario	17	—	—	—	17
Manitoba	2	—	—	—	2
Total Gross Wells	**4,860**	**208**	**50**	**2,590**	**7,708**
Total Net Wells	**517**	**38**	**16**	**127**	**698**

Production from 16 oil wells is gathered into this tank battery in Southern Alberta

A wellhead pumping installation at a Southwest Saskatchewan location

Ashland Canada's pipeline system gathering crude oil in the Hays - Grand Forks area

UNITIZATION AND PRESSURE MAINTENANCE

Ashland Canada has an interest in 93 production Units, 16 of which are operated by the Company. During the year the Company participated in the initiation of 5 secondary recovery projects or unitization schemes, including 2 for which it acts as operator.

The Butte Voluntary Unit in Southwest Saskatchewan, one of the Units formed in 1971, includes 27 producing oil wells and 6 injection wells. The production decline has been arrested and waterflood response has already been noted in several wells. The Company is the designated operator of this Unit.

Of particular interest is the Pembina-Keystone area of Alberta where a dam was constructed to contain and conserve adequate water for pressure maintenance undertakings in three Units producing from the Belly River formation. Excellent response is being noted in the Pembina Belly River "B" North Unit where production has increased during the past year from 600 to 1,400 barrels per day.

GAS CONSERVATION SCHEME

A gas conservation project involving the processing of seven million cubic feet per day of residual gas from five Units in the Pembina-Keystone area of Alberta was initiated by the Company during 1971. A compression and refrigeration plant and gathering system, in which the Company's interest is 75 per cent, is under construction at an estimated cost of $1.1 million. The plant, scheduled to go on stream late in 1971, is expected to serve other gas reserves in the area.

Production of Oil/1971 — Summary by Province

Province	Total Barrels	Daily Avge. Barrels	Per Cent
Alberta	2,999,461	8,218	52
Saskatchewan	2,140,945	5,865	37
British Columbia	597,352	1,636	11
Other	3,033	9	
Totals	**5,740,791**	**15,728**	

The average price received by the Company for oil during 1971 was $2.50 per barrel.

Natural Gas Sales/1971 — Summary by Province

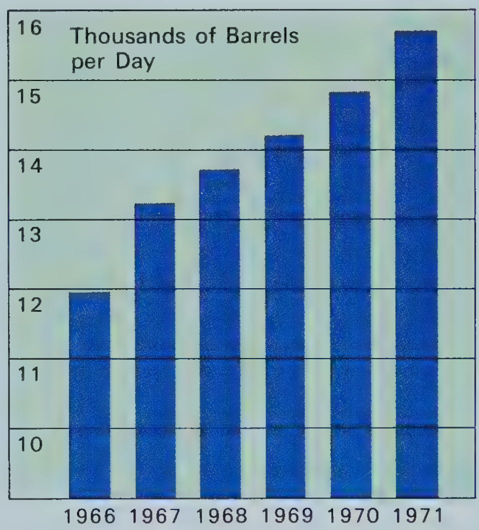
Province	Total Mcf	Daily Avge. Mcf	Per Cent
Alberta	5,500,317	15,069	66
British Columbia	1,976,891	5,416	24
Saskatchewan	891,533	2,443	10
Totals	**8,368,741**	**22,928**	

The average price received by the Company for gas during 1971 was 16.8¢ per thousand cubic feet.

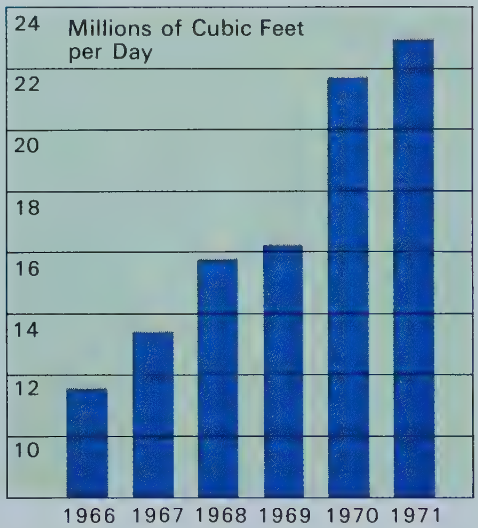
CRUDE OIL SUPPLY DEPARTMENT

Ashland Canada purchased an average of 92,000 barrels per day of crude oil and condensate during 1971 from producers in Western Canada. Commencing with 80,000 barrels per day in the first quarter of the year, volumes purchased and resold reached a level of 120,000 barrels per day during the month of September. Most of the crude oil so purchased was resold to Ashland Oil, Inc., one of the largest United States users of Western Canadian crude oil, whose refineries in Buffalo, New York and Minneapolis-St. Paul, Minnesota are supplied almost entirely with crude oil from Canada.

Production of Crude Oil & N.G. Liquids



Natural Gas Sales



Diamond drill operating in British Columbia

Prospector in Wolf Lake area

Starting an adit in Mount Haskin area

HARD MINERAL EXPLORATION

Expenditures during 1971 on the exploration for and evaluation of mineral properties totalled $300,000, and are expected to continue at or near that level in 1972.

Ashland Canada now holds interests directly or by option in 294,000 acres of mineral claims or permits. Interests in a further 51,000 acres are held through syndicates or joint ventures in which the Company is participating. The properties are located throughout the provinces and territories of Canada.

WOLF LAKE JOINT VENTURE

The Wolf Lake Joint Venture, in which Ashland Canada is a one-third participant, was formed in 1971 to carry out a geochemical and geological reconnaissance survey over a specific 960-square-mile area in the Yukon. As a result of the program, claim blocks were staked in several areas and will be evaluated by further ground work next season.

CALTOR SYNDICATE

The Caltor Syndicate is now in its second year, with an annual operating budget of $220,000. The Company's interest is one-third. Formed to evaluate a wide range of mineral prospects, the syndicate has concentrated its efforts in Western and Northern Canada. Property evaluation ranges from field geological study to diamond drilling and trenching. Active groundwork has been undertaken on several prospects and, where encouraging, will be continued next year.

MOUNT HASKIN

The Della Mines Limited claims, covering approximately 2,500 acres near Cassiar in Northeast British Columbia, were evaluated further during 1971. Underground work consisted of driving an 850-foot adit which contains over 1000 feet of additional crosscutting and diamond drill stations. On the surface, the properties were evaluated by further trenching and diamond drilling. Over 2000 feet of diamond drilling was completed, including underground and surface operations. Ashland Canada has a shareholding interest in Della Mines of approximately 15 per cent.

RAYROCK MINES LIMITED

Ashland Canada acquired a 17 per cent interest in Rayrock Mines Limited and has completed arrangements for the purchase of an additional 4 per cent of the outstanding shares.

Rayrock is a Toronto-based Canadian mineral exploration company involved in a broad range of syndicated and joint venture exploration projects in Canada and the United States. In addition, both directly and through its share ownership of Discovery Mines Limited, Rayrock holds interests in two currently producing mines, the Icon Sullivan Joint Venture copper mine in Quebec and the Avoca copper producer near Dublin, Ireland.

Rayrock also holds working interests in, and operates, the Rodney and Gobles oilfields in Ontario, from which its share of production averages 770 barrels per day.

Warren Bitulithic's newest asphalt plant in operation at Mississauga, Ontario

Transporting granular material by barge to an asphalt plant at Richmond, British Columbia

Paving the Cabot Trail on Cape Breton Island, Nova Scotia

This section of the Cariboo Trail, paved by Columbia Bitulithic, winds through the deserted gold mining settlement of Wingdam to historic Barkerville, British Columbia

ASPHALT PAVING AND CONSTRUCTION

The Company was involved in a high level of construction activity in virtually all areas of the country, from paving a portion of the Cabot Trail in Nova Scotia to a townsite and mine work at Port Hardy on Vancouver Island, British Columbia.

The Warren Bitulithic and Columbia Bitulithic Divisions of the Company both set new records for volume and operating income during the year. Combined revenues increased 12 per cent to $36.3 million, while operating income increased 16 per cent to $4.9 million. The divisions now operate a total of 24 asphalt plants on permanent locations, including a new plant established in the town of Mississauga in the greater Toronto area, and 12 portable plants for use on job sites throughout the country. The permanent plants, all on commercial locations, are highly automated and able to produce asphaltic concrete to a wide range of customer specifications.

Ashland Canada acquired the City Construction group of companies now operated by the Columbia Bitulithic Division. Besides broadening its scope of activities in the greater Vancouver area, the Company gained representation in the city of Nanaimo on Vancouver Island, a new area of operation for the division.

Access to granular material sources for use in the Vancouver area was expanded. Barge loading facilities were constructed on the Fraser River near Company-owned and leased quarries. Unloading facilities in Vancouver now allow the direct use of efficient water transportation for material supply.

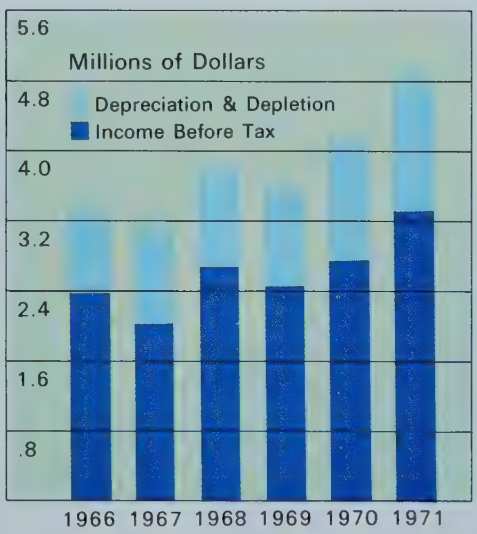
New granular material sources were acquired in the Kitchener, Kenora and Caledon areas in Ontario, replacing and increasing the Company's gravel and sand reserves. The Company has an established policy of long-range planning for land reclamation and environmental control for all such gravel deposits and quarries.

Capital expenditures of $360,000 on pollution control during the year represent only a portion of the Company's direct investment in this area for the asphalt paving and construction operations. An on-going plan has been established to evaluate and upgrade the efficiency of pollution control equipment and therefore ensure that all such operations will meet or exceed the requirements of Government authorities.

At year end each of the two construction divisions had considerably more work under contract than was the case at the same time the previous year. With housing starts at record levels and engineering construction again on the rise the Company anticipates that 1972 construction activity should exceed 1971 levels.

Construction is a labour intensive business and, in operations as far flung as these, the resourcefulness, initiative and loyalty of the many employees, superintendents and managers is an essential element in the success of the operations.

Construction Divisions—Operating Income



A new "Valvoline" blending and packaging plant was completed at Vancouver, British Columbia

Many professional Canadian drivers use "Valvoline" racing motor oil

PETROLEUM PRODUCT MARKETING

The Company is engaged, through its Valvoline Oil Canada Division, in compounding, packaging and distributing oils, greases, rust preventatives and other petroleum products to automotive and industrial markets across Canada.

During 1971 gross sales of $2.7 million compared with $2.5 million for the previous year. Operating profits of $316,000 showed a significant 85 per cent increase over the $171,000 earned in the comparable period for 1970.

The division has been able to continue its penetration of the highly competitive automotive market and has expanded its distribution system in the Maritime and Prairie provinces.

Valvoline also markets a wide range of specialty products, including snowmobile and outboard motor oils and "Tectyl", an automotive undercoating. Increasing quantities of automotive lubricants and specialty products are now being sold through volume merchandisers across the country.

A packaging plant, including facilities for bulk storage and warehousing, has been completed in the Vancouver area and is now in full operation. Plans have been completed for a similar facility in the province of Quebec. Property, serviced by rail and highway, has been acquired in Boucherville near Montreal and the plant is expected to be in operation by the fall of 1972.

The "Valvoline" program of sponsoring automobile racing enjoyed a successful year. Top drivers in all of the important race meets in Canada, including road circuit racing, drag racing, stock car racing and rally meets, utilized "Valvoline" lubricants. The following are some of the sponsored drivers who were successful during the season:

Jacques Coture captured the prestigious Player's Challenge Cup, emblematic of the Canadian Road Racing Championship.

David Loring won the Canadian Championship for Formula Ford cars.

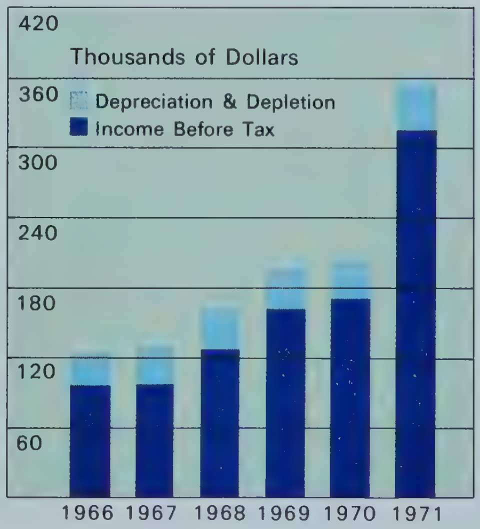
Luke DeSadaleer was successful in securing the Formula Vee Canadian Driving Championship.

Walter Boyce finished the year's activities as the Canadian Rally Champion.

Roger McCaig and John Cordts, two Canadian drivers, finished well in the highly competitive Can-Am Series.

The Company is optimistic that both sales and profits from this division will continue to expand. The investment in new plants will allow the Company to handle expanded sales in all areas of Canada and ensure a high standard of service to its customers.

**Petroleum Marketing—
Operating Income**



Blending of petrochemicals to meet customer specifications

One of Ashland Canada's foundry binders was used in the fabrication of the core for this steel casting

CHEMICAL OPERATIONS

Gross sales and income from the Company's two chemical divisions showed a significant increase over the year in the face of intense competition and economic uncertainties in the markets served.

RESIN & CHEMICAL DIVISION

Total sales for the division during fiscal 1971 amounted to $5.4 million, an increase of 12.5 per cent over the comparable period for 1970. Operating income of $295,000 represented an increase of 9 per cent over the previous year.

The Resin & Chemical Division manufactures a large variety of products in its Toronto-based chemical plant, many of which are developed by the group's own research staff. Output from the plant includes foundry industry products, protective coatings, resins, inks and petrochemicals. During the year the division made further penetration into the protective coating market in the housing industry and developed a new hot-box resin for use by the automotive industry.

One of the Lin-O-Set foundry binders produced by the Resin & Chemical Division of Ashland Canada was used in the fabrication of the core for one of the largest carbon steel castings ever poured (shown opposite). This casting was made by Canadian Steel Foundries for Dominion Engineering Works and is part of the equipment for the huge Churchill Falls hydro-electric project being developed in Labrador.

Various possibilities for increasing the marketing of additional products of the division outside the Ontario-Quebec market are under review.

INDUSTRIAL CHEMICALS & SOLVENTS DIVISION

Total sales for the division during fiscal 1971 reached $2.6 million, up 14 per cent from 1970, and operating income increased to $166,000 from $60,000 in 1970.

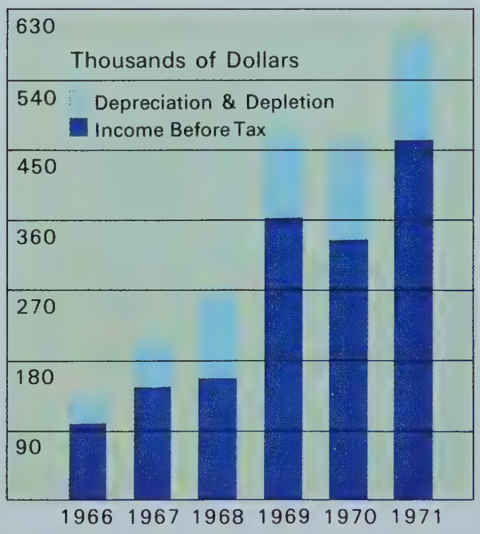
The Industrial Chemicals & Solvents Division is involved in the blending, packaging and distribution of a large number of solvents and petrochemical products throughout the country. The division distributes almost two hundred different products from its packaging and warehouse facilities in Toronto, including products marketed under the well-known trade name ''Bronoco''.

MACKENZIE VALLEY PIPELINE RESEARCH LIMITED

There are now 16 companies, including Ashland Canada, participating on an equal basis in this research company. In continuous operation since March of 1970, a field research facility at Inuvik is providing valuable information on practical methods of pipeline construction and operation in the Arctic environment.

The importance of this project has become much more apparent with the discovery during 1971 of substantial reserves of crude oil in the Mackenzie Delta region of the Northwest Territories. It is most important that crude oil and natural gas transportation systems be developed which will have little or no adverse effect on the ecology of the regions served.

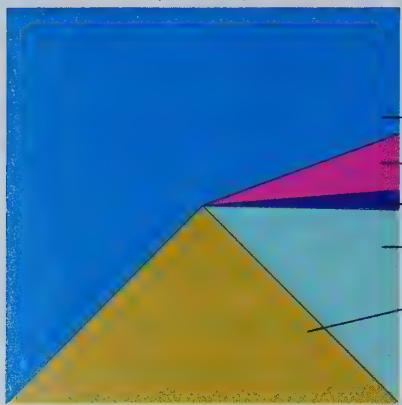
Chemical Divisions — Operating Income

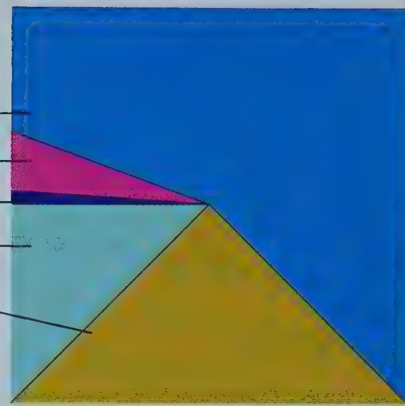


FINANCIAL RESULTS

Distribution by Class of Business

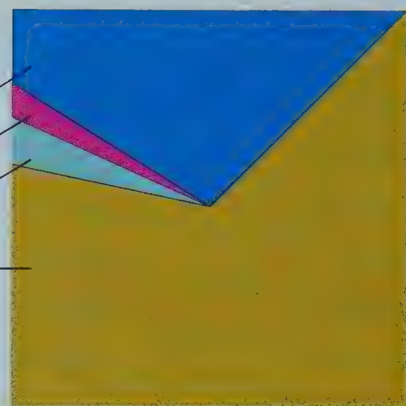
Sales and Operating Revenues





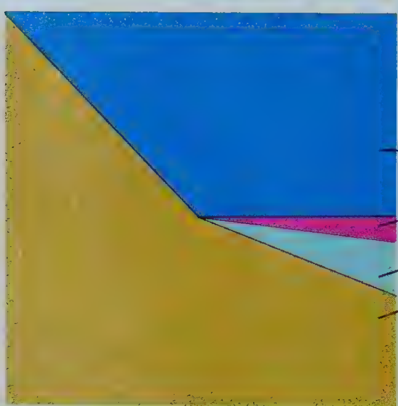
Twelve months ended Sept. 30, 1970 (Restated)		Twelve months ended Sept. 30, 1971
57.0%	Road Construction & Materials	56.8%
4.5%	Petroleum Products	4.4%
1.5%	Other	1.1%
12.0%	Petrochemicals & Chemicals	12.6%
25.0%	Oil & Gas	25.1%

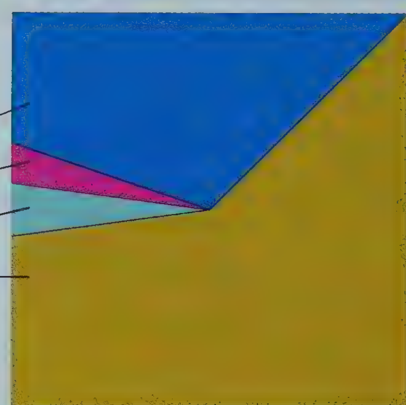
Cash Flow



Twelve months ended Sept. 30, 1970 (Restated)		Twelve months ended Sept. 30, 1971
21.0%	Road Construction & Materials	28.8%
1.0%	Petroleum Products	2.1%
4.0%	Petrochemicals & Chemicals	3.4%
74.0%	Oil & Gas	65.7%

Income Before Tax





Twelve months ended Sept. 30, 1970 (Restated)		Twelve months ended Sept. 30, 1971
37.0%	Road Construction & Materials	32.5%
2.0%	Petroleum Products	3.1%
4.0%	Petrochemicals & Chemicals	4.5%
57.0%	Oil & Gas	59.9%

CAPITAL EXPENDITURES

Distribution by Class of Business

1971 (Actual)		1972 (Projected)
26.8%	Road Construction & Materials	14.8%
1.7%	Petroleum Products	4.1%
0.7%	Petrochemicals & Chemicals	1.0%
2.4%	Hard Minerals	1.9%
2.1%	Other	0.2%
66.3%	Oil & Gas	78.0%

Ashland Oil Canada Limited and Subsidiaries

Consolidated Statement of Source and Use of Funds

For the **year ended** September 30, 1971 and the period of **nine months ended** September 30, 1970	1971	1970
Funds were provided from:		
Net income (after extraordinary gain in 1971)	$ 8,573,290	$ 3,585,347
Depreciation and depletion	6,673,627	4,926,181
Amortization of debt issue expenses — Note D	4,916	2,650
Amortization of mining exploration costs	234,527	110,735
Deferred income taxes	602,000	73,265
Provision for minority interest — Notes A and E	35,700	140,800
Total Funds provided from Operations	16,124,060	8,838,978
Issue of 365,000 $2 cumulative redeemable preferred shares by a subsidiary company		7,300,000
Total Funds Provided	16,124,060	16,138,978
Funds were used for:		
Property and equipment additions — net	13,355,515	7,977,103
Investments and other assets	1,586,098	250,018
Reduction of investment in Canadian oil and gas properties by Ashland Oil, Inc.		488,237
Reduction in long-term debt	1,393,342	1,172,607
Dividends on 6% cumulative redeemable convertible preferred shares	129,885	64,942
Cash payment in connection with acquisition of 215,683 common shares of Ashland Oil Canada Limited by a subsidiary company — Note F	63,187	
Reorganization expenses		92,196
Total Funds Used	16,528,027	10,045,103
Increase (decrease) in working capital for the period	(403,967)	6,093,875
Adjustment due to pooling subsidiaries having fiscal years ending on different dates		595,472
Increase (Decrease) in Working Capital	($ 403,967)	$ 6,689,347

Consolidated Statement of Retained Earnings

For the **year ended** September 30, 1971 and the period of **nine months ended** September 30, 1970	1971	1970
Balance at beginning of period	$37,713,364	$34,116,148
Net income	8,573,290	3,585,347
Adjustments due to pooling operating results of companies having fiscal years ending on different dates		489,268
Net income of Canadian oil and gas properties retained by Ashland Oil, Inc. for reinvestment in properties		(412,457)
	46,286,654	37,778,306
Deduct dividends paid on 6% cumulative redeemable convertible preferred shares	129,885	64,942
Balance at End of Period	$46,156,769	$37,713,364

See accompanying notes which are part of the consolidated financial statement.

Consolidated Statement of Income

For the **year ended** September 30, 1971 and the period of **nine months ended** September 30, 1970	1971	1970
Oil and gas sales, less royalties	$15,882,252	$10,220,786
Petroleum product sales	2,728,155	1,886,158
Petrochemical and chemical sales	7,954,986	5,432,189
Road construction and material sales - Note A	36,296,864	23,840,533
Other income - Note B	1,148,138	693,455
	64,010,395	42,073,121
Cost of sales and operating costs:		
Oil and gas production expenses	4,204,006	2,901,594
Petroleum products	1,829,743	1,302,988
Petrochemicals and chemicals	6,509,474	4,183,810
Road construction and materials	29,964,294	19,976,879
Selling, administrative and general	4,692,839	3,187,313
Depreciation and depletion	6,673,627	4,926,181
Amortization of mining exploration costs	234,527	110,735
Interest including $4,916 amortization of debt issue expenses ($2,650 in 1970) - Note D	406,561	391,808
	54,515,071	36,981,308
Income Before Income Taxes, Minority Interest and Extraordinary Gain	9,495,324	5,091,813
Income taxes - Note C		
Current	195,000	927,401
Deferred	602,000	73,265
	797,000	1,000,666
Income Before Minority Interest and Extraordinary Gain	8,698,324	4,091,147
Interest of minority shareholders in the net income of a subsidiary company - Note E	598,872	505,800
Income Before Extraordinary Gain	8,099,452	3,585,347
Gain on disposal of shares of a non-controlled company	473,838	
Net Income	$ 8,573,290	$ 3,585,347
Income per common share*		
Income before extraordinary gain	62¢	28¢
Extraordinary gain	4¢	
Net income	66¢	28¢

*In the calculation of earnings per common share no provision has been made for either the additional common shares which would result from conversion of the presently outstanding preferred shares or for the additional common shares which would be issued on the exercise of outstanding employee stock options because the effect of each provision would be to increase the earnings per common share. The calculation is in accordance with the requirements of the Canadian Institute of Chartered Accountants.

See accompanying notes which are part of the consolidated financial statement

Notes to Consolidated Financial Statement

Note A — Accounting Policies

PRINCIPLES OF CONSOLIDATION — The consolidated financial statement includes the accounts of all subsidiary companies. The accounts of a United States subsidiary have been translated to Canadian dollars at appropriate rates of exchange. All significant inter-company transactions and accounts have been eliminated upon consolidation. The minority interest in preferred shares of a subsidiary company together with dividends thereon accrued from the date of the last semi-annual dividend payment date, July 2, 1971, have been provided for on consolidation.

INVENTORIES — Inventories are valued at the lower of first-in, first-out cost or market and consisted of the following:

	September 30, 1971	September 30, 1970
Refined and semi-refined products	$ 216,555	$ 228,756
Crude oil — Note B	771,882	
Plastics, resins and chemicals	882,448	822,311
Development and operating supplies and materials	1,968,388	1,580,346
	$3,839,273	$2,631,413

FULL COST METHOD OF ACCOUNTING — The companies follow the full cost method of accounting whereby all costs relative to the exploration for and development of oil and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical costs, carrying charges on non-producing properties and costs of drilling both productive and non-productive wells. These costs are depleted by the unit of production method based on estimated proven oil and gas reserves. Depreciation of production equipment is computed in a similar manner.

DEPRECIATION — Depreciation of plant and equipment (other than oil and gas production equipment) is determined generally on a straight line basis over the estimated useful lives of the assets.

CONSTRUCTION INCOME — Income on construction contracts is recognized on the percentage of completion method.

Note B — Crude Oil Purchasing Agreement

The Company has an agency agreement to purchase Canadian crude oil for Ashland Oil, Inc. Income earned under the agreement during the year of $387,394 is included in other income. Accounts relating to the agreement are settled monthly in cash.

Note C — Income Taxes

For income tax purposes:

1) The companies are entitled to claim capital cost allowances in amounts which may exceed the related depreciation provisions reflected in the accounts. At September 30, 1971 after such claims approximately $13,200,000 of undepreciated capital cost remains to be carried forward and applied against future taxable income of these companies.

2) Ashland Oil Canada Limited and its oil and gas subsidiaries are entitled to claim drilling, exploration and lease costs in amounts which may exceed the related depletion provisions reflected in the accounts. At September 30, 1971 after such claims approximately $9,750,000 of drilling, exploration and lease acquisition costs remain to be carried forward and applied against future taxable income of these companies.

The Canadian Institute of Chartered Accountants has recommended the income tax allocation method of accounting whereby the income tax provision is based upon income reported in the accounts.

The companies have followed the tax allocation method for timing differences referred to in (1) above. Management, however, does not consider it appropriate to apply this method to timing differences referred to in (2) above. This view conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

If the tax allocation basis for all timing differences had been followed in current and prior periods the provision for deferred taxes would have been increased and the resulting net income decreased by $3,350,000 in the year ending September 30, 1971 and by $1,371,000 in the period of nine months ending September 30, 1970.

On a cumulative basis to September 30, 1971 deferred income taxes would have been $18,753,194.

Consolidated Balance Sheet

Assets

	September 30, 1971	September 30, 1970
Current Assets		
Cash and short-term deposits	$ 1,367,320	$ 3,045,096
Trade accounts receivable	11,642,254	10,633,173
Receivable from Ashland Oil, Inc. for crude oil purchases — Note B	7,022,019	
Construction completed and in progress at contract prices	3,677,123	2,832,006
Inventories — Note A	3,839,273	2,631,413
Tender deposits and prepaid expenses	721,635	653,088
Due from Ashland Oil, Inc.		876,418
Total Current Assets	28,269,624	20,671,194
Investments and Other Assets		
Deposits and sundry	283,453	239,318
Accounts, notes and mortgages receivable	407,456	500,365
Research expenditures	282,500	275,000
Investment in other companies at cost	2,306,181	683,725
	3,279,590	1,698,408
Property and Equipment — Note A		
Petroleum, natural gas and mineral properties	85,503,966	79,459,173
Equipment — on the basis of cost		
Production	17,968,139	16,145,374
Marketing	2,304,208	2,015,899
Road building	22,411,886	18,675,533
Other	1,469,109	1,113,494
	129,657,308	117,409,473
Less allowances for depreciation and depletion	54,473,399	48,672,925
	75,183,909	68,736,548
	$106,733,123	$ 91,106,150

See accompanying notes which are part of the consolidated financial statement

Liabilities and Shareholders' Equity

	September 30, 1971	September 30, 1970
Current Liabilities		
Bank indebtedness	$ 4,149,500	$ 1,978,063
Trade accounts payable and accrued liabilities	9,829,679	8,545,605
Crude oil accounts payable — Note B	5,820,269	
Income taxes payable	174,798	1,116,044
Current portion of long-term debt — Note D	1,275,430	1,607,567
Total Current Liabilities	21,249,676	13,247,279
Long-Term Debt - less current maturities - Note D	1,530,773	2,924,115
Deferred Income Taxes - Note C	3,103,194	2,501,194
Minority Interest in a Consolidated Subsidiary - Note E	7,236,360	5,772,460
Shareholders' Equity - Notes F and G		
Share capital		
Preferred shares		
6% cumulative redeemable convertible preferred shares of a par value of $25 each		
Authorized and issued 200,000 shares; outstanding 68,010 shares (86,590 in 1970)	1,700,250	2,164,750
Common shares, par value 45¢ per share		
Authorized 30,000,000 shares; issued and outstanding 12,957,855 shares (12,919,688 in 1970)	5,831,035	5,813,860
Capital in excess of par value	21,416,453	20,969,128
Retained earnings	46,156,769	37,713,364
	75,104,507	66,661,102
Less cost of 215,683 common shares held by a subsidiary company - Note F	1,491,387	
Total Shareholders' Equity	73,613,120	66,661,102
	$106,733,123	$ 91,106,150

APPROVED ON BEHALF OF THE BOARD:

[signature] Director

[signature] Director

Note D — Long-Term Debt

	September 30, 1971		September 30, 1970	
	Amounts due within one year	Long-term portion	Amounts due within one-year	Long-term portion
Bank loan payable in annual instalments of $70,000	$ 70,000	$ 70,000	$ 70,000	$ 140,000
Bank loans payable in monthly instalments of approximately $90,500, secured by the assignment of interests in certain producing petroleum and natural gas properties under Section 82 of the Bank Act	1,086,000	661,773	1,394,595	1,778,308
Other notes and mortgages, 4% to 7% due 1972 to 1977	119,430	317,000	20,472	68,307
5½% sinking fund redeemable notes, Series "A" due July 1, 1976		482,000	122,500	937,500
	$1,275,430	$1,530,773	$1,607,567	$2,924,115

The sinking fund requirements of the 5½% notes have been satisfied until 1974 in which year $107,000 will be due. The amount of $187,500 is due annually thereafter. The remaining balance of note discount and issue expense of $4,916 was written off during the year. Previously such expense was amortized by the straight line method over the term of the notes.

Note E — Minority Interest in a Consolidated Subsidiary

In the preceding year a subsidiary company, Canadian Ashland Exploration Ltd. issued 365,000 $2 cumulative redeemable preferred shares of a par value of $20. Under the plan of reorganization which became effective September 9, 1970 Ashland Oil Canada Limited acquired 83,417 of these preferred shares and the remaining 281,583 preferred shares, together with dividends accrued thereon, represented a minority interest in a consolidated subsidiary of $5,772,460.

During the year Ashland Oil Canada Limited transferred 71,410 of its holding of the preferred shares to a wholly-owned subsidiary company and as a result of the acquisition of common shares of Ashland Oil Canada Limited by the subsidiary company (see Note F) the minority interest in Canadian Ashland Exploration Ltd. was increased.

As at September 30, 1971 the par value of 352,993 $2 cumulative redeemable preferred shares of Canadian Ashland Exploration Ltd. (approximately 97% of 365,000 preferred shares outstanding), together with dividends thereon accrued since the last semi-annual dividend date, July 2, 1971, represents the minority interest in a consolidated subsidiary of $7,236,360. The annual dividend requirement on the $2 cumulative redeemable preferred shares held by the public is $705,986.

Note F — Acquisition of Common Shares of Ashland Oil Canada Limited by a Subsidiary

Under an agreement between Ashland Oil, Inc. and S. C. Nickle, Sr. Canadian Ashland Exploration Ltd., or its nominee, held an option to acquire 177,516 common shares and 18,580 6% cumulative redeemable convertible preferred shares of Ashland Oil Canada Limited for consideration of 71,410 $2 cumulative redeemable preferred shares of Canadian Ashland Exploration Ltd. and a contingent amount of cash.

During the year Canadian Ashland Exploration Ltd. assigned its right under the option agreement to a wholly-owned subsidiary of Ashland Oil Canada Limited (see Note E) and on September 30, 1971 the option was exercised for a total consideration of 71,410 $2 cumulative redeemable preferred shares of Canadian Ashland Exploration Ltd. and $63,187 cash.

The subsidiary exercised its right to convert the 18,580 6% cumulative redeemable convertible preferred shares into 38,167 common shares and now holds 215,683 common shares of Ashland Oil Canada Limited.

No gain or loss was recorded as a result of the exercise of the option or the subsequent conversion of the 6% cumulative redeemable convertible preferred shares.

Note G — Share Capital and Capital in Excess of Par Value

The 6% cumulative redeemable convertible preferred shares of the Company are convertible into common shares on approximately the following basis:

2.06 common shares for each preferred share to December 2, 1973 and,

1.98 common shares for each preferred share thereafter to and including December 1, 1978.

During the year 38,167 common shares were issued on conversion of 18,580 preferred shares (see Note F). The excess of the par value of the preferred shares converted over the par value of the common shares issued, which amounted to $447,325, has been credited to Capital in Excess of Par Value.

As at September 30, 1971, 140,100 common shares are reserved for conversion of preferred shares.

During the year the Company reserved 300,000 of its common shares for issuance under the terms of a Preferred Employees Stock Option Plan.

On June 15, 1971 options on a total of 181,250 common shares at the option price of $10.75 a share were granted to ninety employees (five of whom are also directors) of the Company. The exercise price is equal to the market price of the shares on the date the options were granted. The shares subject to option are exercisable to the extent of 50% in the one year period commencing June 15, 1972 and to the extent of 25% in each subsequent year. Options not exercised in the year available may be exercised at any time thereafter, but before the expiry date of June 15, 1976.

Note H — Retirement Plans

Ashland Oil Canada Limited is continuing to operate the retirement plans which were in effect in certain of the predecessor companies prior to the amalgamation. At September 30, 1971 the unfunded liability under one such plan was $150,000 which has not been provided for in the accounts except to the extent of monthly instalments of approximately $1,500 which have been charged to operations at the time of payment.

Other retirement plans which are being continued are contributory retirement plans for certain salaried employees and Company contributions represent normal costs, as the plans are fully funded with respect to prior service costs. Under these plans it is the policy to fund costs as accrued.

Note I — Remuneration of Directors and Senior Officers

Direct remuneration of the Company's Directors and senior officers for the year ended September 30, 1971 amounted to $463,258.

Note J — Lease and Deposits

The Company has a lease on an office building which expires in 1973 (with an option to renew). Under the terms of the lease the Company is required to pay all operating expenses (which approximate $140,000 per year) and an annual rental of $245,000. The major portion of the building is currently subleased at annual rentals aggregating approximately $235,000.

The Company has deposited non-interest bearing demand notes in the amount of $145,997 with the Government of Canada as performance deposits with respect to exploratory rights.

ERNST & ERNST
CHARTERED ACCOUNTANTS
CALGARY-ALBERTA

To the Shareholders,
Ashland Oil Canada Limited

We have examined the consolidated balance sheet of Ashland Oil Canada Limited and subsidiaries as at September 30, 1971 and the consolidated statements of income, retained earnings, and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated financial statement presents fairly the financial position of the companies as at September 30, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Ernst & Ernst

Calgary, Alberta, Canada
November 5, 1971

Chartered Accountants

No qualification - how about 1972

DIRECTORS

ERIC CONNELLY
Calgary, Alberta

S. B. DAVIS, III
Ashland, Kentucky

WILLIAM A. ELSER
Calgary, Alberta

H. EARL JOUDRIE
Calgary, Alberta

LARRY G. LINK
Mississauga, Ontario

ARLOE W. MAYNE
Ashland, Kentucky

JAMES A. MILLARD
Calgary, Alberta

CARL O. NICKLE
Calgary, Alberta

VERNON VAN SANT, JR.
Calgary, Alberta

GORDON J. ZACHARIAS
Vancouver, British Columbia

PRINCIPAL OFFICERS

ARLOE W. MAYNE
Chairman of the Board

H. EARL JOUDRIE
President and
Chief Executive Officer

VERNON VAN SANT, JR.
Executive Vice-President
General Manager,
Oil and Gas Division

WILLIAM A. ELSER
Vice-President
Assistant General Manager,
Oil and Gas Division

LARRY G. LINK
Vice-President
President, Warren Bitulithic Division

WILLIAM J. WHELAN
Vice-President, Administration
Treasurer

GORDON J. ZACHARIAS
Vice-President
President, Columbia Bitulithic Division

WILLIAM L. JAMES
Secretary

ARTHUR R. MORISON
Comptroller

EXECUTIVE PERSONNEL

ANDREW D. BERRY
Chief Geologist

S. ALLEN COOKE
Manager,
Resin & Chemical Division

HARRY CULL
Assistant Treasurer

C. JAMES DONNELLY
Manager,
Oil and Gas Production

COLIN M. EVANS
Executive Assistant to the President

JOHN M. GORDON
Manager,
Valvoline Oil Canada Division,
Richmond, British Columbia

JOE S. IRWIN, JR.
Manager,
Oil and Gas Exploration

KARL O. KINZER
Assistant Treasurer
Vice President,
Columbia Bitulithic Division

RONALD T. PATTERSON
Assistant Secretary
Vice President,
Warren Bitulithic Division

G. DAVID RAVENCRAFT
Personnel Manager

ALFRED F. SMITH
Manager,
Valvoline Oil Canada Division,
Toronto, Ontario

FRANK E. STARRATT
Manager,
Oil and Gas Engineering

LESLIE TRELOAR
Assistant Secretary
Executive Assistant to Management

THOMAS G. WOOD
Manager,
Industrial Chemicals &
Solvents Division

GENERAL OFFICES
ASHLAND OIL CANADA LIMITED
1800 Standard Life Building,
Calgary 1, Alberta.

OPERATING DIVISIONS
OIL AND GAS DIVISION
1800 Standard Life Building,
Calgary 1, Alberta.

WARREN BITULITHIC DIVISION
72 Ashwarren Road,
Downsview, Ontario

COLUMBIA BITULITHIC DIVISION
Granville Island,
Vancouver, British Columbia.

VALVOLINE OIL CANADA DIVISION
31 Industrial Street, Toronto, Ontario.
421 No. 3 Road, Richmond, British Columbia.

RESIN & CHEMICAL DIVISION
200 Fairbank Avenue,
Toronto, Ontario.

INDUSTRIAL CHEMICALS &
SOLVENTS DIVISION
150 Bronoco Avenue,
Toronto, Ontario.

REGISTRARS AND TRANSFER AGENTS
Guaranty Trust Company of Canada.
(Common and preferred shares)

Bank of New York, New York, N.Y.
(Preferred shares only).

LISTINGS
Toronto Stock Exchange.
Calgary Stock Exchange.
American Stock Exchange (Common shares only).

SOLICITORS
MacKimmie Matthews
Calgary, Alberta.

AUDITORS
Ernst & Ernst
Calgary, Alberta.

SUBSIDIARY COMPANIES
Canadian Ashland Exploration Ltd.
Whitehall Western Oils, Ltd.
W. B. Bennett Paving & Materials Company Limited
M. B. Bennett Construction Company Limited
Warren Bitulithic Limited
Warren (Maritimes) Limited
Northland Bitulithic Limited
Towland-Hewitson Construction Limited
Towland (London) 1970 Limited
City Construction Company Limited
Hub City Paving & Construction Ltd.
Island Excavating Ltd.

Ashland Oil Canada Limited / Annual Report 1971

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ASHLAND OIL CANADA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS *

($000's OMITTED)

	Six Months ended Mar. 31, 1971
Funds were provided from:	
Net income	$ 3,677
Depreciation and depletion	3,059
Mining exploration	69
Deferred taxes	30
Total funds provided	$ 6,835
Funds were used for:	
Property and equipment additions - net	$ 4,317
Investments and other assets	21
Reduction in long term debt	634
Dividends on preferred shares	65
Total funds used	$ 5,037
Increase in working capital	$ 1,798

* The above statement is unaudited and subject to year-end adjustments.

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ASHLAND OIL CANADA LIMITED,
1800 Standard Life Building
639 - Fifth Avenue S.W.
Calgary 1, Alberta, Canada

ASHLAND OIL CANADA LIMITED

Ashland

INTERIM REPORT TO SHAREHOLDERS

For the six months ended March 31, 1971

ASHLAND OIL CANADA LIMITED

TO THE SHAREHOLDERS:

The Company recorded net income of 24¢ per share before extraordinary items for the six month period ended March 31, 1971. This compares with net income of 19¢ per share before extraordinary charges for the same period last year. The Company realized a total net income of $3,677,000, or 28¢ per share, which includes an extraordinary gain of $474,000 (4¢ per share) from the sale of its interest in Producers Pipelines Ltd.

Cash flow of $6,835,000, or 52¢ per common share, increased from $5,846,000, or 45¢ per common share, for the same period last year.

Total revenue of $22,397,000 was up from the $21,755,000 recorded during the same period in 1970.

Working capital at $9,222,000 has increased $1,798,000 since September 30, 1970, while long term debt at March 31, 1971 was $2,290,000.

The Company has participated in the drilling of 74 wells during the six month period, resulting in the completion of 23 oil wells, 12 gas wells and 39 dry holes.

The Company is continuing its drilling program in the Alberta shallow gas areas and has to date completed 7 wells of 22 drilled.

Ashland Canada also participated in the drilling of a gas discovery in the Helmet area of Northeastern British Columbia, holding a 25% interest in 11,766 acres and a 50% interest in 653 acres, and the option to earn a 25% interest in an additional 10,456 acres in the area.

Panarctic, in which the Company holds an approximate 1% interest, is presently drilling Panarctic Fosheim N-27 on the Fosheim structure in the Arctic Islands. In addition, the Company will have a direct working interest participation in the well.

Daily average oil production for the six month period ending March 31, 1971 was 15,535 barrels per day. Average daily production for the month of March 1971 was 16,390 barrels per day. Natural gas production during March reached 28 million cubic feet per day and for the six month period averaged 25 million cubic feet per day.

The Company has elected not to proceed with construction of the carbon black facility previously proposed for the Village of St. David in the Province of Quebec. Although the project was to have been supported with a $1,270,000 grant under the Regional Development Incentives Act, changes in economic factors since our original projections reduced the potential profitability of the project. A substantial increase in the price of carbon black feedstock for the plant, resulting from an increase in demand for fuel oils and higher tanker rates, was one of the factors which led to our decision.

Ashland Canada has completed the acquisition of approximately 17% of the outstanding common stock of Rayrock Mines Limited and a resultant indirect interest in Discovery Mines Limited and Avoca Mines Canada Limited. The Company is represented on the Board of Directors of Rayrock and Discovery, and is looking forward to an expanded participation in hard mineral exploration and development from its association with the Rayrock-Discovery group.

The Company has also completed negotiations for the acquisition of the business and assets of City Construction Company Limited, a Vancouver-based asphalt paving and construction company. The operations of this company will be consolidated with our Columbia Bitulithic Division.

The asphalt paving and construction divisions will shortly be commencing their period of high activity, with in excess of $6 million in work under contract.

The petroleum marketing and chemical divisions have shown an increase in profits over the same period last year.

H. EARL JOUDRIE
President and
Chief Executive Officer.

Calgary, Alberta,
May 10, 1971.

ASHLAND OIL CANADA LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME *

($000's OMITTED)

	Six months ended March 31 1971	1970
INCOME		
Net sales and operating revenues	$22,226	$21,564
Miscellaneous income	171	191
	$22,397	$21,755
EXPENSES		
Costs and expenses	$15,501	$15,026
Depreciation and depletion	3,059	3,264
Mining exploration	69	—
Interest on long term debt	154	297
Taxes on income		
Currently payable	99	445
Deferred	30	32
TOTAL EXPENSES AND TAXES	$18,912	$19,064
Income before minority interest and extraordinary item	$ 3,485	$ 2,691
Extraordinary gain or (loss)	474	(675)
Minority interest	282	141
NET INCOME	**$ 3,677**	**$ 1,875**
Income per common share:		
Before extraordinary item	**24¢**	**19¢**
Extraordinary gain or (loss)	4¢	(5¢)
	28¢	14¢
Cash flow	$ 6,835	$ 5,846
Per common share	**52¢**	**45¢**
Long term debt	$ 2,290	$ 3,514
Working capital	$ 9,222	$ 7,485
Average net daily production:		
Crude oil and liquids (barrels)	15,535	15,497
Natural gas (MMcf)	24.9	21.8

* The above statement is unaudited and subject to year-end adjustments.